

## Press Release

27 January 2025

### **AFRC Study Advocates for Improved Sustainability Assurance Practices and Urges Auditors to Incorporate Climate Risks in Financial Audits**

The Accounting and Financial Reporting Council (**AFRC**) today publishes a study on [Market Readiness for Sustainability Reporting and Assurance in Hong Kong](#).

In December 2024, the Government issued a roadmap for large listed entities and financial institutions to prepare sustainability reports using ISSB Standards by 2028. As a member of the Green and Sustainable Finance Cross Agency Steering Group, the AFRC will develop a local regulatory framework for sustainability assurance for public consultation. This will enhance the credibility and confidence in organisations' sustainability practices and reporting.

Understanding the market is crucial for developing robust regulations, the study focuses on the readiness of listed entities for sustainability reporting and assurance, and the readiness of public interest entity (**PIE**) auditors to provide sustainability assurance and practices to address climate-related risks in financial audits. This also allows the AFRC to identify areas for capacity-building to support the roadmap implementation.

The study was conducted in two parts: first, an analysis of sustainability assurance by 82 listed entities in the Hang Seng Index (**HSI**),<sup>1</sup> and second, two surveys on listed entities and PIE auditors regarding their practices and plans. The surveys had response rates of 89.3% (75 responses) for PIE auditors with PIE engagements<sup>2</sup> and 30.6% (797 responses) for listed entities.

### **Key Observations**

#### **1. Listed entities are taking steps towards robust climate reporting**

Over one-third (37%) of surveyed entities reported moderate to high exposure to physical climate risks such as floods, typhoons, and sustained high temperatures. Similarly, 40% reported moderate to high exposure to transition risks from policy, technological, and market changes aimed at mitigating or adapting to climate change.

<sup>1</sup> HSI entities as of April 2024. The analysis was based on the assurance reports published by the entities in 2023 and 2024.

<sup>2</sup> These PIE auditors have at least one PIE audit engagement as of 30 April 2024.

Entities that anticipate climate change impacts are well-positioned to manage risks and seize opportunities. 4% and 7% of respondents have yet to assess their exposure to physical and transition risks respectively, and this presents a valuable opportunity. By evaluating their exposure, those in climate-sensitive industries can take early actions to transform their business models and enhance their long-term financial sustainability.

Over half of the listed entity respondents are gearing up for robust sustainability reporting. On the other hand, 47% of respondents need to invest in "data and technology", "internal controls, systems, and governance", and "financial and human resources". These areas lay the foundation to make substantive and quantitative disclosures for investors and other readers.

The most pressing issue cited by listed entities was the lack of sufficient in-house expertise. With their keen analytical skills and business acumen, accountants are well suited for contributing to climate reporting, and listed entities need to leverage them better. Nearly half (46%) of the respondents involve in-house accountants for all climate reporting tasks, and 13% have yet to utilise them.

## **2. An increasing number of listed entities are obtaining sustainability assurance to enhance credibility of their disclosures**

The number of HSI listed entities who have published assurance reports have grown from 51% in 2023 to 65% in 2024. These entities cited that the assurance can enhance investor confidence, their sustainability ratings, and brand reputation.

Since sustainability assurance is voluntary, practices in Hong Kong vary. In 2024, 53% of HSI entities published assurance reports on direct greenhouse gas emissions, and 34% on their indirect value chain emissions. Around 53% obtained limited assurance, 21% reasonable assurance and 26% mixed/other assurance. These diverse practices can confuse investors and other readers of sustainability reports, highlighting the importance of developing the sustainability assurance framework by the AFRC.

Both Certified Public Accountant (**CPA**) and non-CPA firms provide sustainability assurance services. Non-CPA firms served over half of HSI entities that obtained sustainability assurance. They were also engaged for their industry knowledge and ESG expertise.

Ms Janey Lai, CEO of the AFRC, said, "Sustainable finance plays a pivotal role in addressing climate change by channelling capital into environmentally responsible projects and businesses. As investors and financial institutions increasingly demand reliable sustainability disclosures, CPA firms have a unique opportunity to strategically position themselves in this evolving market. By leveraging their assurance expertise, CPA firms can expand their services, drive innovation, and enhance their value proposition to meet the growing needs of stakeholders."

### **3. PIE auditors with global networks lead in providing sustainability assurance, with others preparing to follow suit**

As of May 2024, ten PIE auditors had delivered sustainability assurance services. All of them plan to expand their services, which bodes well for their future.

To support the sustainability business, nine of them employ accountants with ESG qualifications, while five have non-accountant ESG specialists. These specialists enable them to offer comprehensive and specialised services, giving them a competitive edge and building trust with clients and investors.

Notably, over one-third of the 75 PIE auditors with PIE engagements now offer sustainability assurance services. This expansion opens new revenue streams and market opportunities. By demonstrating a commitment to ESG, these firms strengthen their reputation and better enable them to attract young talents to the profession.

"The AFRC is committed to building a resilient and forward-thinking accounting profession that not only adapts to change but also drives and thrives on change. By embracing innovation and fostering a culture of continuous improvement, the profession is well placed to deliver the highest standards of accountability and transparency." stated Ms Lai.

### **4. PIE auditors are making progress to assess and address climate risks in financial audits.**

Auditors are required to assess the financial impact of climate-related risks when auditing financial statements. Category A auditors,<sup>3</sup> who serve clients in climate-sensitive industries, are leading the way in addressing climate-related risks in financial audits. They set a high standard by providing ESG training and having ESG specialists support their financial audit teams. Two-thirds also provided technical resources.

Other auditors can learn from these practices to enhance their own capabilities. The identified opportunities for growth include refining guidelines, improving methods to measure financial impact, and expanding expertise on climate issues. To support these efforts, they are encouraged to leverage valuable guidance from the international and local standard setters.

Dr David Sun, Chairman of the AFRC, remarked, "The AFRC is dedicated to working collaboratively with stakeholders and other financial regulators to support the effective implementation of Hong Kong Sustainability Disclosure Standards through rigorous assurance practices. This approach aims to cultivate a more sustainable and responsible business environment that benefits all stakeholders. Our commitment to sustainability goes beyond compliance; it's about building a resilient and thriving future."

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<sup>3</sup> Category A PIE auditors have more than 100 PIE audit engagements.

## About the Accounting and Financial Reporting Council

The Accounting and Financial Reporting Council is an independent body established under the Accounting and Financial Reporting Council Ordinance. As an independent regulator, the AFRC spearheads and leads the accounting profession to constantly raise the level of quality of professional accountants, and thus protects the public interest and promotes the healthy development of the accounting profession.

For more information about the statutory functions of the AFRC, please visit [www.afr.org.hk](http://www.afr.org.hk).

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